

Why are online ads cheaper?

It seems lately, what with the [End Times](#) and all, people have been asking why newspapers can't make money online. Obviously online papers don't have circulation fees (subscriptions and newsstand prices) but they don't have circulation costs either (paper, ink, delivery). Circulation fees only make up 20% of newspaper revenue, so all things considered one wouldn't think this would be an existential threat to the business.

Craigslist has been a bigger deal; classified ads used to be 40% of newspaper revenue, versus just 30% now. But even magazines, which have never run classifieds, are feeling the pinch.

The real issue is that online ad prices per reader are far, far lower than offline prices. But why is that?

I've heard lots of theories, but I think the real explanation is simple: supply and demand. If you want to buy an offline ad, there are only a handful of places you can buy it. As a result, supply is constrained and the price goes up. But online, ad networks let just about everybody sell ads on an equal footing. Practically, it doesn't make that much difference whether your ad appears on nytimes.com or politico.com or eschatonblog.com, as long as it reaches the same person. So supply goes up and the price gets bid down.

Most people don't seem to like this explanation, so I'll try phrasing it another way. In the days of paper, to get your ad to people you had to get it on a truck and into their hands on something they would read. Newspapers and magazines could charge a premium for this. Online, you just need to upload an image file.

Anyone see any flaws with this theory?

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